

City of Cincinnati



FOR YOUR INFORMATION

9/20/01

To: Mayor and Members of City Council

From: John F. Shirey, City Manager

Subject: Anthem Demutualization

The City of Cincinnati has purchased health insurance from Anthem for many years. A year ago Anthem announced its plans to demutualize, to convert from a mutual insurance company to a stock insurance company. This conversion must be approved by the State of Indiana Department of Insurance and by a majority of the Anthem statutory member policyholders. The City of Cincinnati is a statutory member policyholder. If the conversion is approved, all statutory members are entitled to a onetime payout in cash or stock.

Recently the City received a Member Information Packet describing the demutualization process. The packet included an estimate that the City could receive approximately 760,000 shares, the value of which will be determined when the initial public stock offering is made. Since receiving the information the City Administration has been evaluating the demutualization offer to assure that the City will receive appropriate compensation. There are a number of complex actuarial issues involved in the calculation of shares of stock to be issued to each statutory member. We have just engaged expert consultants to assist us in evaluating the offer. A public hearing is scheduled for October 2, 2001 in Indianapolis and a shareholder meeting to vote on the conversion is scheduled for October 29, 2001. As a result of the evaluation, we may recommend that the City testify at the hearing.

Information received from Anthem to date indicates that the City of Cincinnati will receive a much more sizable distribution of stock than we originally anticipated. The shares will be allocated between the City Retirement System Health Plans and the City Health Plans. At this time we do not know the percentage of the shares to be allocated between the City and Retirement System.

If the demutualization is approved, it is unknown when the distribution of stock will occur or what restrictions may be placed on the selling of the stock received in the demutualization. Any challenges to the planned demutualization could delay the approval and distribution of shares of stock to eligible statutory members.

I will update the City Council as soon as we are able to provide more definitive answers on the details of the demutualization process.